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SUBJECT: JORDAN'S PACE OF PRIVATIZATION TO PICK UP SPEED IN 2006

Classified By: Ambassador David Hale, Reasons 1.4 (b) and (d).

¶11. (SBU) Summary: Jordan's Executive Privatization Commission (EPC) Chairman, Mohammed Abu Hammour, provided upbeat prospects for privatization efforts in 2006. He forecasted \$1 billion USD in revenue generated for the first six months of 2006, with an incremental \$200 million in the second half. Additionally, he said he intended to privatize all 21 government-held companies in the next two years. When asked why prospects were strong, Abu Hammour pointed to a strategic shift in widening the circle of buyers to include financial institutions and credited an ongoing campaign to build political will for privatization. Leaders of the East Bank community, which have traditionally benefited disproportionately from the state economy, will need to be convinced if Abu Hammour's hopes are to be realized. End Summary.

The Numbers for 2006

¶12. (SBU) Abu Hammour predicted that the \$9 million generated in 2005 from privatization would be followed by approximately \$1 billion in the first six months of 2006. Citing the imminent sale of the government's share in Jordan Telecom, Jordan Phosphate Mines Company, the Queen Alia Airport Hotel, and a real estate tower complex, Abu-Hammour expressed full confidence that 2006 would be a banner year for privatization in the Kingdom.

¶13. (C) Jordan Telecom (JT) will be the biggest privatization placement in 2006 bringing the Government anywhere from USD 550 to 600 million. Current prospects for the government's 41.5% stake include half to France Telecom (FT), raising FT's stake to 55% from 35% in JT, with the remaining half to be listed on the Dubai International Stock Exchange. Atlas Investment's CEO Omar Masri (handling the placement on the stock exchange in conjunction with Goldman Sachs) on January 24 confirmed that the roadshow for institutional investors is set to begin in a matter of weeks pending a finalized deal on FT's incremental share purchase. While Jordan's recently-approved debt swap increase from 30 to 40% in the Paris Club should facilitate FT's purchase, Abu Hammour expressed some disappointment about FT's current bidding strategy and their price offer.

Widening the Circle of Buyers

¶14. (C) Commenting on current negotiations, Abu Hammour used FT as an example of how past Jordanian insistence on strategic partners has given the partners an upper hand. According to Abu Hammour, many of these partners were reluctant to pay the valuations that the Government was seeking, recognizing they were in a VIP club with few

members. This, in turn, slowed down the pace of privatization as negotiations became protracted over the purchase price. Abu Hammour's solution to this dilemma has been to drop the strategic partner requirement and open the bidding to financial institutions. The possibility of placing a majority of the government's remaining ownership of JT on the stock exchange, as well as prominent West Bank businessman Sabih Al Masri's unsolicited bid to buy the entire company are, according to Abu Hammour, examples of how financial institutions can serve as catalysts, forcing the strategic partner to recognize the Government has other options. Note: Sabih Al Masri, a Palestinian-Jordanian, would possibly, merge JT operations with PalTel (the Palestinian fixed line operator) if he were to obtain a controlling stake. Because FT has first right of refusal and due to legal uncertainty about merging the operations of one national carrier (JT) with another (PalTel), Masri's bid has some inherent hurdles which may be difficult to clear. End note.

¶ 15. (C) Comment: The strategic shift toward widening the circle to allow for more competitive pricing, is not only a smart decision on the part of the EPC, but may also be an indicator of the emerging strength of indigenous financial markets. Numerous investment banks and venture capital firms are established in Jordan. Sitting on a large amount of capital, many are eager to make a play in companies with a regional focus. End Comment.

Building Political Will

¶ 16. (C) Abu Hammour cited several examples of his organization's effort over the past year to improve public understanding of, and political support for privatization.

He credits the success of this groundwork as one major reason he expects privatization to accelerate in the coming two years.

Efforts at political consensus include Ramadan iftar dinners hosted by the Chairman for imams and the press to discuss privatization; a study commissioned to discuss the impact of privatization (scheduled to be published in mid February), and the King's endorsement of the work of the EPC reflected in His Majesty's letter to the new Cabinet calling for privatization as a top priority. However, anti-privatization sentiment is still considerable in the lower house of parliament. While the job of building political will has gone well to date, Abu Hammour was cautious enough to say that a clear road to privatization will require consistent attention.

¶ 17. (C) Comment: It is encouraging that a steady hand like Abu Hammour is so optimistic about the near-term prospects for privatization. Aside from the economic and fiscal benefits it will bring, significant privatization in 2006 would be a sign that Jordan's ethnic rifts are growing narrower. In the past, privatization efforts in Jordan have pitted East Bankers, who often have a statist bent, against entrepreneurial Jordanians of Palestinian origin. East Bankers have often cited the sale of state assets as a further transfer of economic power into the hands of these Palestinian Jordanians, who form the backbone of the entrepreneurial economy. The imperatives of the budget deficit and high oil prices help counterbalance this resistance: both sides hope the revenues generated can boost government spending or pay down the country's debt.
Hale